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Unemployment fraud soars

Improper payments sap jobless fund as more seek benefits

By JASON STEIN
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Madison — Fraud in Wisconsin's unemployment insurance program has more than tripled over the past two years to \$17.7 million in 2009, according to state figures.

Many of the improper payments are being recovered and they are still only a fraction of the total amount the state pays out in benefits to struggling jobless workers. But as part of a national trend, overpayments due to both fraud and honest mistakes are growing more

quickly than jobless benefits as a whole and last year, in Wisconsin alone, totaled \$51.1 million.

The improper payments further stress a state jobless fund that has already been forced to borrow \$1.4 billion from the federal government to keep making payments during a time of chronic unemployment.

In a down economy, cash-strapped workers have more reason to fudge numbers or outright lie by saying they're entitled to more benefits than they're really owed, said Hal Bergan, administrator of the state Division of Unemployment Insurance.

"Those numbers are growing," said Bergan, whose agency is taking steps that include seeking more prosecutions. "That's something that demands our attention."

To help gradually repay the debt in the unemployment fund, state officials are considering payroll tax increases on businesses and benefit cuts to jobless workers. Cutting

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“Nobody likes fraud. It’s actually stealing from people who deserve benefits.”

Dennis Penkalski,
member of the
Unemployment
Insurance Advisory
Council

improper payments is one way to lessen the effects of those measures on people and businesses who are following the law.

With the state unemployment rate remaining high — it stood at 8.5% in April — the total claims paid out to jobless workers in Wisconsin more than doubled in 2009 to \$2 billion, compared with \$900 million in 2007.

But fraudulent claims rose at an even faster rate, climbing to \$17.7 million in 2009 from \$4.7 million in 2007, according to figures that Wisconsin officials presented May 25 to the U.S. Senate Committee on Finance during a hearing on cutting improper payments. Overpayments that didn’t result from fraud rose to \$33.4 million from \$13.4 million over those same years.

State Department of Workforce Development spokesman John Dipko stressed that much of the increase in overpayments is attributable to more unemployment, more people receiving jobless checks for longer periods of time and recent changes in unemployment benefits by Congress. That means there

are more chances for fraud and mistakes, and for larger amounts, he said.

The state is adding staff to root out fraud and overpayments, and Dipko said state officials were asked to testify before Congress because Wisconsin has a good reputation for controlling the problem.

“These have been extraordinary times for the (unemployment insurance) program, given the national economy, and the sheer volume of claims has greatly increased,” he said.

The overpayments represent those the state believes it could prove even if challenged. Bergan said there could be more cases of fraud in the system that are not being detected but that “it’s very hard to know how much more.”

One major cause of fraudulent overpayments is when workers are making at least some money from a job but they either deliberately don’t report those earnings or they underreport them. Under the unemployment system, wages earned during a week can count against the jobless benefits the worker can receive for that week, so failing to report earnings boosts a worker’s benefits.

Workers also can make an honest mistake and fail to report wages from a part-time job when applying for unemployment.

David Hart, a state assistant attorney general who prosecutes Milwaukee County unemployment fraud, said he sees cases in which workers have two or three jobs but

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continue to report no wages and file for unemployment benefits for weeks or even months, each racking up as much as thousands of dollars in overpayments.

Dennis Penkalski, a member of the state's Unemployment Insurance Advisory Council, said sometimes employers also are involved in unemployment scams, agreeing to pay workers some money under the table but not report the wages so the workers can still claim unemployment benefits.

"Nobody likes fraud," said Penkalski, who represents labor groups on the council. "It's actually stealing from

people who deserve benefits."

Testifying to the U.S. Senate committee,

state Workforce Development Secretary Roberta Gassman said Wisconsin had increased the staff assigned to finding and investigating fraud to 21 employees, up from 11 just six months ago. The state also is adding staff to recover more of the overpayments being discovered.

In 2007 and 2008, the state recovered all but \$4.6 million of the overpayments made to



Gassman

workers. But improper payments ballooned in 2009 and so far \$20.1 million of those have not been collected.

"The increase in the number of established overpayments ... has seriously taxed the ability of the collection staff to maintain their historically high recovery rates," Gassman told the committee.

Bergan said more 2009 overpayment will likely be collected in coming months.

Gassman said her agency supports federal legislation that would increase penalties for fraud and let states use 5% of the money they recover from overpayments to pay for

their efforts to reduce improper benefits.

But Maurice Emsellem, a policy co-director for the National Employment Law Project, said increasing penalties can have a big effect on workers who make honest mistakes. In many cases, it now takes weeks or months for state agencies to discover overpayments and notify the workers, who have to repay huge amounts, he said.

Bill Cosh, speaking for the state Department of Justice, said that since February 2006 state prosecutors have won 53 convictions of unemployment fraud and recovered \$480,000 in overpayments.

Wisconsin State Journal June 5, 2010

Jobless fund debt hits \$1.42B

If the state continues to borrow federal money at a record pace, employers may find themselves subject to higher taxes.

By **CLAY BARBOUR**
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Wisconsin continues to borrow federal money at a record pace to help offset shortfalls in the state's unemployment fund.

Officials with the state Department of Workforce Development confirmed Friday that Wisconsin's unemployment debt has reached \$1.42 billion, putting it on pace to surpass a dubious state record set more than 30 years ago.

In 1982, the state borrowed \$988 million from the federal government to help pay jobless claims, an amount that equals about \$2.1 billion in today's dollars. That was the only other time Wisconsin had to borrow federal money to help pay for unemployment.

Wisconsin's current unemployment fund faces a projected deficit of nearly \$2.9 billion by the end of 2011, more than twice the amount forecast last year.

"Not controlling our expenses, nor having enough money in reserve, combined with this economic downturn, has put the state in a bind," said Todd Berry, president of the Wisconsin Taxpayers Alliance.

The unemployment fund, which pays an average of \$290 a week to jobless people, is paid for through taxes on employer pay-

rolls. If borrowing continues at its current pace, it could mean higher taxes for employers and lower benefits for the unemployed.

More than two dozen states are wrestling with similar shortfalls, including North Carolina, Texas and California.

The federal stimulus law forgives interest on unemployment debt through 2010, but starting in 2011 Wisconsin would owe about 5 percent annual interest, which could equal more than \$100 million a year.

If nothing is done to pay off the loans, the federal government eventually will tax Wisconsin employers to repay the debt.

"When this happened in the early '80s, it took a bipartisan group to figure a way out of the problem," Berry said. "That will probably be the case again."